

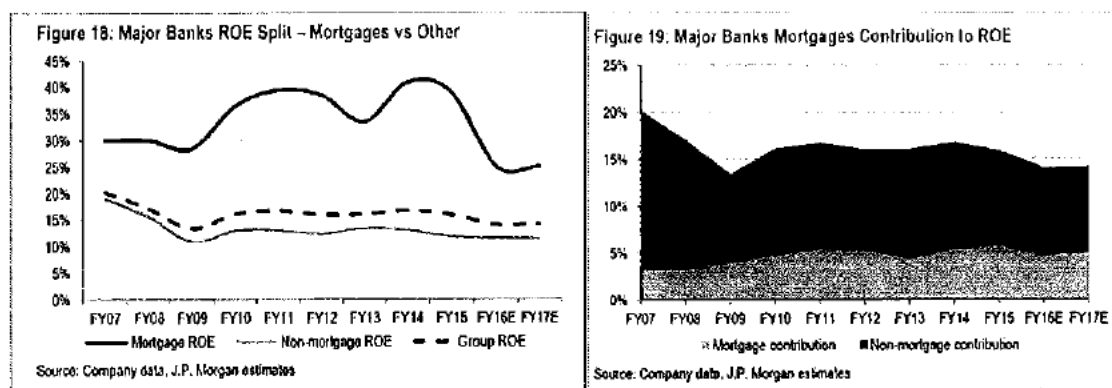
In relation to return on equity:

- a) *What is the return on equity (ROE) on mortgages?*
- b) *What is the return on equity (ROE) on credit cards?*
- c) *What percentage of the CBA's overall ROE is attributed to home loan business?*

Commonwealth Bank's overall ROE for FY16 was 16.5 per cent. ROE for individual products (e.g. home loans and credit cards) is not reported within Commonwealth Bank or externally. Any calculation of product ROE would be highly subjective and academic since there are no consistent methodologies for allocating the cost of funds, operating expenses or capital down to an individual product level. These issues are explored below together with further financial information about home loans and credit cards.

The calculation of ROE would require a methodology for allocating capital to individual products. This would be an extremely subjective exercise, as there are many definitions of capital, involving goodwill and other items, and there is no guidance in accounting standards for how to do this consistently.

Although we do not report ROE on mortgages, the following charts, which have been developed by JP Morgan for the banking industry, may be of assistance. While we have no particular insight into the methodology that JP Morgan has used, it may be a helpful overview of the industry.



Source: JP Morgan Australian Mortgage Industry Report – Volume 23 (p17).

We provide the table below to assist the Committee in understanding how we consider and report the relative contribution of different parts of the retail bank.

Retail Banking Services		
\$m	2016	2015
Home loans	4,100	9%
Consumer finance	2,520	4%
Retail deposits	3,149	11%
Distribution	427	8%
Other	165	0%
Total banking income	10,361	8%
Operating expenses	(3,373)	3%
Operating performance	6,988	10%
Loan impairment expense	(660)	5%
Tax	(1,892)	11%
Cash net profit after tax	4,436	11%

Note: This table does not include Bankwest.

The table above shows the income contribution of each product set, net of the cost of funds. For example, the FY16 revenue of \$4,100 million for home loans comprises net interest income (income earned from home lending less the cost of funding the loans) plus related fees.

It is important to note that product level revenue may not be comparable across the industry due to different methodologies for allocating the cost of funds (transfer pricing). For example, banks may attach different amounts of 'revenue' to customer deposits depending on whether deposits are considered a product or a source of funding. Moreover, the calculation of profitability for an individual product can be misleading in any particular year. This is because actual impairments are dependent upon the prevailing economic conditions, for example, current loss rates on mortgages are approximately 0.03 per cent which is well below the average losses that would be experienced through an economic cycle.

In addition, operating expenses, like branches, ATMs, IT systems and risk management, cannot be directly allocated to products, as products are not run as their own end to end businesses. As an illustration, the branch network is a Group-wide asset and provides a multitude of products and services to customers - its costs are not directly attributable to any individual product.

Commonwealth Bank also measures and reports product performance in line with accounting standards, based on direct revenue and yield. Below is an extract from Commonwealth Bank's FY16 Profit Announcement showing the yield on home loans and personal loans (credit cards, personal loans and margin loans) across the Commonwealth Bank (including Bankwest and Auckland Savings Bank). This table shows that for every \$1 of home loan lending we received a gross return of 4.37 per cent in the last half of FY16. This gross return is before the cost of funds and all other costs.

Interest Earning Assets	Half Year Ended 30 Jun 16			Half Year Ended 31 Dec 15 ⁽¹⁾		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%
Home loans	443,497	9,837	4.37	429,839	9,646	4.47
Personal loans ⁽²⁾	23,838	1,464	12.35	23,608	1,468	12.28
Business and corporate loans	215,027	4,406	4.12	207,726	4,355	4.17
Loans, bills discounted and other receivables	682,362	15,507	4.57	660,973	15,459	4.65